

Statement of Estimated State Revenue Impact

Date: March 2, 2011 (As amended on March 1, 2011 by the Senate Finance Sales and Income Taxation Committee)

Bill Number: S.B. 36

Authors: McConnell and McGill

Committee Requesting Impact: Senate Finance Committee

Bill Summary

To amend Act 99 of 2007, relating to the sales tax exemption for durable medical equipment and supplies, by repealing Sections 1B and 1C, which state that the sales tax rate on durable medical equipment is five and one-half percent subject to further reduction based on General Fund revenue growth.

REVENUE IMPACT ^{1/}


This bill, as amended, will reduce General Fund sales tax revenue by \$817,936 in FY2011-12.

Explanation of amendment (March 2, 2011) – by the Senate Finance Sales and Income Taxation Subcommittee

This amendment would reduce the sales and use tax on the sale of durable medical equipment (DME) paid directly by funds under the Medicare and Medicaid programs from five and one-half percent to three and one-half percent starting on July 1, 2011. The sales tax would be reduced from three and one-half percent to one percent effective July 1, 2012. DME paid directly by funds under the Medicare and Medicaid programs would then be fully exempt from the sales and use tax starting on July 1, 2013. This amendment would also repeal Section 1C which triggers the incremental reduction in the sales tax rate on DME based on General Fund revenue growth. Based upon collections of the five and one-half percent sales tax on DME in FY09-10, we estimate that this amendment will reduce General Fund sales tax revenue by \$817,936 in FY2011-12.

Explanation

This bill will amend Act 99 of 2007 by repealing Section 1B and 1C which states that the sales tax rate for durable medical equipment paid directly by funds under the Medicare and Medicaid programs is five and one-half percent subject to further reduction based on General Fund revenue growth. The repeal of these sections would fully exempt durable medical equipment paid directly by funds under the Medicare and Medicaid programs from sales tax. Currently, the sales tax rate for durable medical equipment is five and one-half percent. Further incremental reduction of this rate has not occurred because forecasted General Fund revenues have not grown at the required five percent rate. Based upon collections of the five and one-half percent sales tax on durable medical equipment in FY09-10, we estimate that fully exempting the sales tax from sales of durable medical equipment is expected to reduce General Fund sales tax revenue by \$2,249,324 in FY2011-12.


William C. Gillespie, Ph.D.
Chief Economist

Analyst: Ball

^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.